10/2/87 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 36B
September 25, 1987

IN THIS ISSUE:

Second Quarter Growth:
The Pause That Refreshes? 1

Nakasone Takes Final Bow
At United Nations 3

Nikaido Pulls Out Of LDP
Presidential Contest 4

IBM-Fujitsu Software Pact Announced 5

Senate Committee Recommends Verity
For Commerce Post 7

Notes: IMF Annual Report; Japan-EC Talks;
U.S.-Japan Whaling Talks;
Textile Bill 8

Second Quarter Growth: The Pause That Refreshes?

One would expect that reports showing Japan's economy was stagnant would lead to concern that a recession was imminent. Instead, the news has been greeted in Japan with sanguine comments and optimistic forecasts.

According to Economic Planning Agency figures (see Table), the total output of final goods and services adjusted for inflation and seasonal factors increased a tiny 0.008 percent during April-June 1987. The flat performance would be disappointing under normal circumstances, especially following on the heels of a strong 5.3 percent annualized growth rate for the January-March quarter.

Japan's Real Gross National Product at Constant (1985) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1985	FY 1986	July-September 1986	October-December 1986	January-March 1987	April-June 1987
Gross National Product	Y293,332.7 (4.3%)	Y300,948.1 (2.6%)	Y299,438.0 (3.0%)	Y301,619.4 (2.9%)	Y305,518.5 (5.3%)	Y305,543.9 (0.0%)
Personal Consumption Spending	162,999.0 (2.6%)	167,894.8 (3.0%)	168,282.5 (5.3%)	167,048.0 (-2.9%)	170,136.9 (7.6%)	171,248.4 (2.6%)
Private Residential Construction	14,107.9 (2.9%)	15,956.5 (13.1%)	15,851.9 (31.3%)	16,625.4 (21.0%)	16,728.8 (2.5%)	17,440.3 (18.1%)
Private Fixed Nonresidential Investment	53,760.3 (12.9%)	56,369.3 (4.9%)	55,471.9 (2.0%)	56,617.8 (8.5%)	58,049.9 (10.5%)	58,813.2 (5.3%)
Change in Business Inventories	2,016.2 (8.7%)	814.8 (-59.6%)	920.4 (329.1%)	1,351.4 (364.8%)	351.0 (-817.2%)	964.3 (5,596.7%)
Government Current Expenditures	27,240.9 (1.9%)	29,098.8 (6.8%)	28,058.0 (5.0%)	32,065.4 (70.6%)	28,556.7 (-37.1%)	28,797.7 (3.4%)
Government Fixed Investment	20,772.5 (-6.4%)	22,289.7 (7.3%)	22,180.2 (7.4%)	22,428.9 (4.6%)	22,662.8 (4.2%)	23,085.2 (7.7%)
Change in Government Inventories	297.9 (*)	826.3 (*)	1,795.1 (*)	-1,866.9 (*)	121.4 (*)	-215.5 (*)
Net External Sector	12,138.1 (19.9%)	7,697.9 (-36.6%)	6,878.0 (-35.9%)	7,349.4 (30.4%)	8,911.0 (116.1%)	5,410.3 (-276.4%)
Exports of Goods and Services and Factor Income Received	54,496.6 (1.8%)	52,789.4 (-3.1%)	52,640.0 (-3.0%)	52,127.4 (-3.8%)	53,402.6 (10.2%)	52,547.9 (-6.6%)
Imports of Goods and Services and Factor Income Paid	42,358.6 (-2.4%)	45,091.5 (6.5%)	45,762.0 (3.6%)	44,778.0 (-8.3%)	44,491.6 (-2.6%)	47,137.6 (26.0%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

The results in the second quarter reflected sharp changes in five components of GNP, and particularly in domestic demand. Consumer spending was perhaps the most worrisome area since it accounts for well over half of total output. The plunge from the preceding period's 7.6 percent real growth rate to just 2.6 percent could be blamed on cautious consumer psychology. Nevertheless, the positive showing was better than the contraction recorded during the last quarter of 1986. Residential construction returned to boom levels after a slow first three months, spurred by rising land values and attractive interest rates. The rate of growth of business spending for plant and equipment, on the other hand, fell by almost half, a victim of the yen's appreciation and a loss of international competitiveness. While current expenditures by the public sector were restrained to just 3.4 percent growth, government fixed investment increased by a moderately fast rate. Together, real domestic demand in the April-June quarter grew at an annual rate of 4.4 percent, up from 3.2 percent in 1987's first three months.

The net external sector, however, showed a sharp contraction in the second quarter -- sharp enough to cancel the impact of domestic growth. Exports in volume terms fell at an annualized rate of 6.6 percent, contrasting sharply with the previous period's 10.2 percent advance but resuming the pattern of contraction that began in 1986. Real imports, in contrast, surged 26 percent, partly due to a slight rise in crude oil prices. Trade statistics do show a rise in imports of manufactured goods, however, holding out some hope that the decline in the nation's trade surplus will be a sustained one.

Japanese analysts point to the sharp shifts in the growth rates of the various GNP components as evidence that the economy is undergoing a structural adjustment away from export dependence and toward domestic demand. Most analysts expect the trend to be even more pronounced when the July-September figures are released since they will show the impact of the government's fiscal stimulus program. Leading economic indicators are also signaling an upturn, adding to the optimism. On the other hand, the April-June results will make it very difficult for the economy to achieve the government's 3.5 percent real growth outlook for FY 1987. Although government analysts are still hopeful, private economists suggest that the economy will grow 3 percent at most. In light of the country's increasingly important role in global growth, the Japanese are not the only ones with a stake in sound economic growth.

Jon Choy

Nakasone Takes Final Bow At United Nations

Prime Minister Yasuhiro Nakasone delivered a farewell foreign policy address to the United Nations General Assembly September 21, pledging further efforts by Japan to help eliminate the sources of global instability. While the tone and thrust of the address differed little from his previous U.N. speech in October 1985, the prime minister did call for unimpeded information flows among nations and suggested that both North and South Korea be seated simultaneously in the General Assembly as a step toward reducing frictions and instability on the peninsula.